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Mercantile Stores Company, Inc.

Annual Report

Twelve Months Ended

January 31st

1950

Stores Owned by

MERCANTILE STORES COMPANY, INC.

Principal Stores

J. Bacon & Sons	Louisville, Ky.
The Castner-Knott Dry Goods Co.	Nashville, Tenn.
Duluth Glass Block Store Company	Duluth, Minn.
The Fair Store Company	Cincinnati, Ohio
C. J. Gayfer and Company, Incorporated	Mobile, Ala.
Hennessy Company	Butte, Mont.
The Jones Store Co.	Kansas City, Mo.
The Jones Store Co. (Troost Ave.)	Kansas City, Mo.
The Joslin Dry Goods Company	Denver, Colo.
The Lazarus Store, Inc.	Wilkes Barre, Pa.
The Lion Dry Goods Company	Toledo, Ohio
The MacDougall & Southwick Company	Seattle, Wash.
The McAlpin Company	Cincinnati, Ohio
Montgomery Fair Co.	Montgomery, Ala.
The People's Store Company	Tacoma, Wash.
Root Dry Goods Company	Terre Haute, Ind.
Thomas C. Watkins, Limited	Hamilton, Ont., Can.
J. B. White & Co.	Augusta, Ga.
J. B. White & Co.	Columbia, S. C.
J. B. White & Co.	Greenville, S. C.

Other Stores

29 Junior Department Stores

46 Appliance Stores

●

Represented in the markets by

MERCANTILE STORES COMPANY, INC. (N. Y.)

(A wholly owned subsidiary company)

128 W. 31st Street, New York, N. Y.

MERCANTILE STORES COMPANY, INC.

BOARD OF DIRECTORS

JOHN E. BIERWIRTH
LINDSAY BRADFORD
F. K. BRADLEY
ASHTON HAWKINS
HAROLD W. JOCKERS
F. G. KINGSLEY
FREDERICK H. MESERVE
MINOT K. MILLIKEN
ROGER MILLIKEN

OFFICERS

F. G. KINGSLEY, *Chairman of the Board*
HAROLD W. JOCKERS, *President*
F. K. BRADLEY, *Vice-President*
A. D. CHURBUCK, *Vice-President*
FREDERICK H. MESERVE, *Vice-President*
MORGAN A. CASEY, *Treasurer*
ASHTON HAWKINS, *Secretary*
E. F. FLANIGAN, *Controller*

Stock Transfer Agent
THE NEW YORK TRUST COMPANY
New York

Registrar of Stock
CITY BANK FARMERS TRUST COMPANY
New York

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

100 West 10th Street,

Wilmington, Delaware,

April 14, 1950

To the Stockholders of

Mercantile Stores Company, Inc.:

This is the annual report of your Company for the fiscal year ended January 31, 1950, including the financial statements and the letter from your Company's independent auditors.

PROFIT

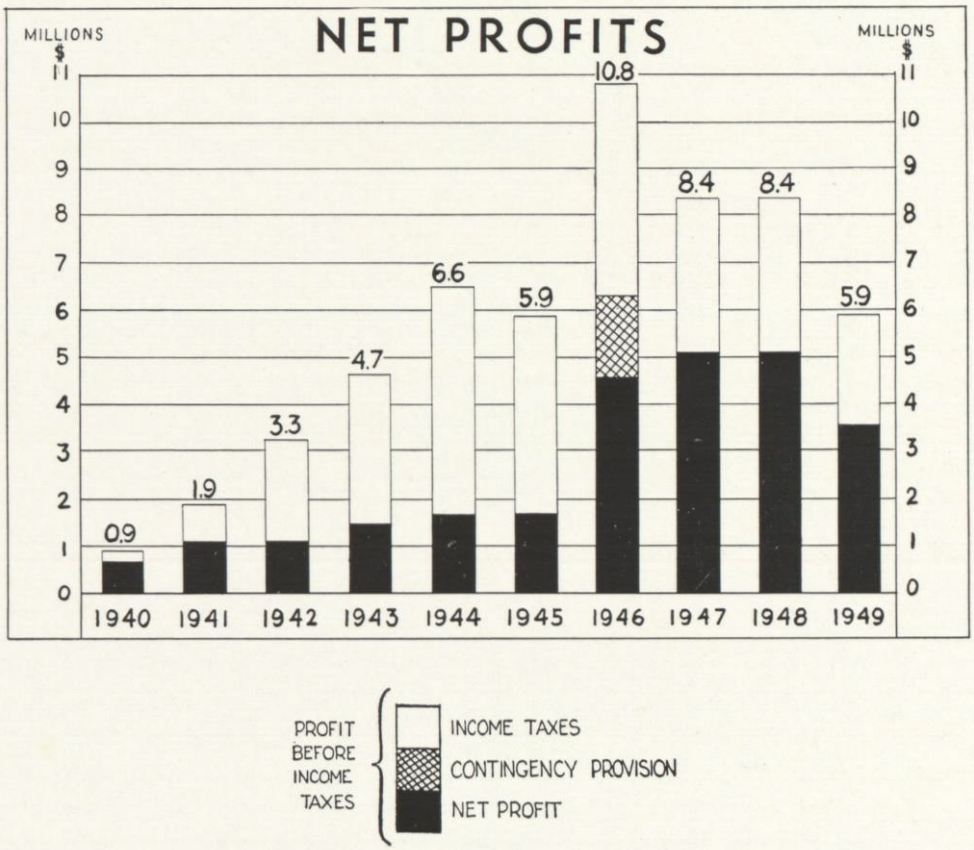
The net profit for the year was $3,607,129 compared with $5,126,725 for the previous year. The profit per share of common stock was equal to $2.42 per share compared with $3.44 per share for the previous year.

Profit, before provision for income taxes, amounted to $5,932,129 for the current year compared with $8,369,725 for the preceding year.

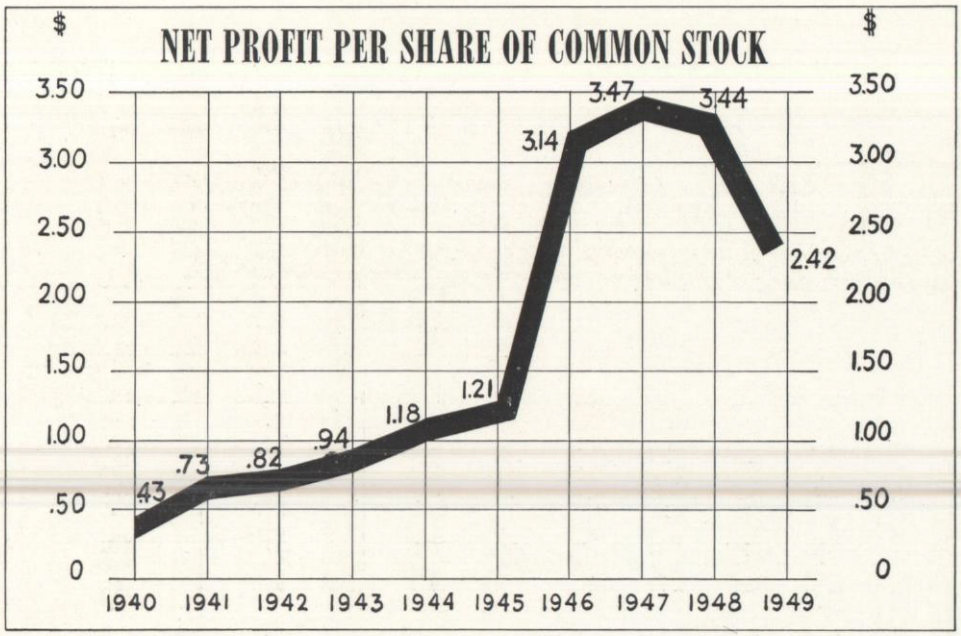
The decline in sales of about $6,500,000 was the main factor in the drop in profit. The percentage of gross margin before expenses was about the same as for the preceding year.

Total expenses in dollars exclusive of new stores were less than the year before, but the sales decline was greater than the rate of reduction in expense, so that the ratio of expenses to sales did rise moderately during the current year. However, the Company's expense ratio is still a relatively low one when compared with published figures for our industry.

The chart given below shows the profit before income taxes and the final net profit for each of the last ten years.



The net profit per share of common stock, for each of the last ten years, is shown in the chart below. The per share amounts for all years are on the basis of the new common stock after the ten for one split-up in 1945.

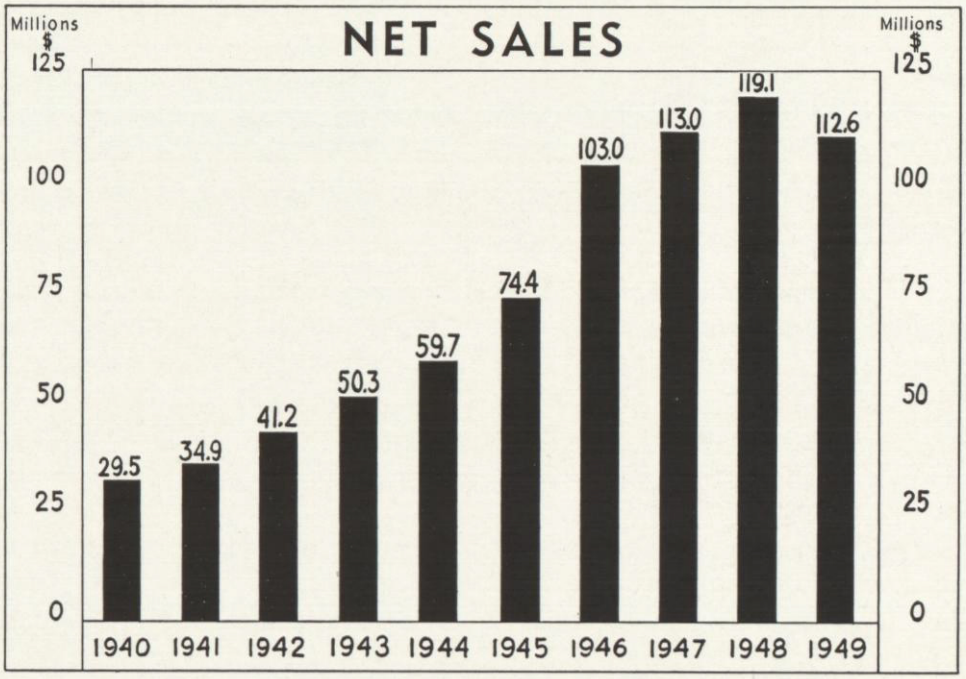


SALES

Sales for the year amounted to $112,607,776 compared with $119,091,512 for the preceding year, a decrease of 5.4%.

There was no sharply defined pattern as between hard and soft goods sales results. For example, in the soft goods category, the coat business was off (although prior to this year there were several consecutive seasons of excellent business). On the other hand men's furnishings results were very satisfactory. Similarly in hard goods, appliance sales were down for the year (although this business picked up in the latter part of the year) while furniture business was good.

The chart at the top of the next page shows in comparative form the amount of sales for each year during the past ten years.



DIVIDENDS

The Company paid $1.00 per share in dividends on the common stock during the year ended January 31, 1950 consisting of four quarterly payments of 25c per share. The dividends on the common stock amounted to $1,481,220 for the year. This makes the fourth consecutive year during which the dividends paid on the common stock were at the rate of $1.00 per share. There were approximately 2,400 common stockholders in our Company at the end of the current year compared with approximately 2,500 a year ago.

The regular preferred stock dividends were paid during the year which amounted in total to $22,040. The Company called for redemption 400 shares of the preferred stock during 1949 and has added these shares to the stock held in treasury.

INVENTORY

Total merchandise inventories at January 31, 1950 amounted to $19,284,683 compared with $18,028,742 a year ago, an increase of 7%. However, the inventory throughout the year was maintained at approximately the same relationship to sales as the preceding year, as the turnover for the current year was 5.2 times compared with 5.3 times for the preceding year (this turnover figure has been computed on the commonly accepted basis of computing the average of the inventory on hand at the end of each month throughout the year — and relating that average inventory to the sales for the year). The management believes the current inventory is well balanced and is generally in good salable condition.

In our report of a year ago, issued in April 1949, reference was made to the decline in general prices which was under way at that time, and which was causing price reductions necessary to adjust the inventory to the then market conditions. That decline in price levels did continue quite generally throughout the Spring season of 1949. At the date this report is being written (approximately April 1, 1950) we are dealing with reasonably stable prices. Markdowns for February and March of 1950 have shown some improvement, but we think it would be unsound to reach any conclusion from the experience of these two months, that the entire year 1950 will follow that pattern. Obviously, this will depend upon general business conditions during the balance of the year.

GEOGRAPHICAL DISTRIBUTION OF OUR BUSINESS

The stores operated by your Company are located in various parts of the United States and Canada. A condensed summary of where our business is conducted is as follows:

	Approximate Percentage of Total Company Sales
Middle West	46%

Including:

Kansas City, Missouri
Terre Haute, Indiana
Duluth, Minnesota
Cincinnati, Ohio
Toledo, Ohio

South	23%
Including:	
Louisville, Kentucky	
Nashville, Tennessee	
Montgomery, Alabama	
Greenville, South Carolina	
Columbia, South Carolina	
Augusta, Georgia	
Far West	22%
Including:	
Denver, Colorado	
Butte, Montana	
Seattle, Washington	
Tacoma, Washington	
Pennsylvania	
Principally in Wilkes Barre	5%
Canada	
Hamilton and Brantford, Ontario	4%
	100%

BASIC POLICIES

In the annual reports for the past two years we outlined in some detail the several basic policies under which your Company operates. These policies continue to be basic in the operation of your Company and a condensed summary is given below of the four principal policies to which reference has just been made:

1. Our merchandise is priced at a definitely lower mark-up than is used by the average department store (as evidenced by published figures for the industry).

2. Central control for all stores is maintained in several of the operating functions — the most important one of which is centralized buying.

3. In order to operate profitably with a smaller mark-up, an expense ratio to sales is maintained which is lower than that of the average department store (again referring to published figures).

4. People are promoted from within the organization — rather than going outside of the Company to fill important positions when the occasion arises.

EXPANSION DURING THE CURRENT YEAR

Two major department stores and one junior department store were added to the group during the current year.

A major unit was opened in Kansas City, Missouri in March, 1949.

In August, 1949 a major store was opened in Columbia, South Carolina.

A junior store in Aurora, Colorado began operations in August, 1949.

These new units opened in 1949 represent about 4% of the Company's total business, on an annual basis.

During the current year, nineteen of the smaller appliance stores were closed. There were no long term lease commitments involved. The Company plans that in future expansion, the appliance business will be handled in junior stores, without opening additional separate appliance stores.

At January 31, 1950 your Company was operating nineteen large department stores, twenty-nine junior department stores and forty-six smaller stores selling household appliances.

On March 16, 1950 the Company purchased all of the capital stock of C. J. Gayfer & Company, Incorporated, of Mobile, Alabama. Gayfer's is one of the leading department stores in Mobile, and has operated there for a long period of years. It has a valuable old name and has built up real acceptance in its community over the years.

We have a lease on store property in Freemont, Ohio and expect our junior store there will be opened for business this coming Fall. We expect to conclude the lease negotiations on another junior store in the near future.

ADDITIONS AND IMPROVEMENTS TO PHYSICAL PROPERTIES

During the current year the Company spent $1,638,015 on additions and improvements to buildings and fixtures. Depreciation charged against operations for the year amounted to $1,298,027 so there was a net increase in the Fixed Assets of the Company of $339,988. The figures just given are entirely apart from the amount spent for repairs and maintenance which aggregated $709,593 for the year, and which was charged against operations.

About 80% of the $1,638,015 spent for additions, was for three stores — the two new major stores which were opened in 1949 (Kansas City, Missouri and Columbia, South Carolina) and our major store in Montgomery, Alabama.

The two new stores required expenditures for remodeling the buildings and for installing fixtures. In Montgomery, the investment of funds was for a complete modernization of the property, including air-conditioning for the entire store. It is now the leading store in the community both in performance and physical plant.

EXPANSION AND IMPROVEMENT PROGRAM

1944-49

The Company began its expansion program in 1944, and in the past six years has added new stores to the group which are currently contributing annual sales of approximately $24,000,000, or about 21 per cent of the present sales volume. While adding these new stores, considerable sums of money were invested in their physical properties.

During these past six years of expansion, and the modernization of our older stores, the Company has invested a total of $11,899,000 in the properties. During these same six years the net profits of the Company amounted to $22,166,000, and dividends paid out totaled $6,818,000, leaving $15,348,000 reinvested in the business. The management is aware that in the history of the retail business there have been many examples of unwise expansion. We believe the expansion and modernization of your Company to date has been on a sound basis.

PROFIT SHARING PLAN

The Company's Profit Sharing Plan has been in operation for nine years, with the basic features of the Plan unchanged during that time. The management is convinced this is an important cornerstone on which good employee relationship is built. In our experience there is no substitute for direct incentive in getting people to produce in their jobs.

Under this Plan payments were made to 1,188 people totaling $1,627,311 for the current year. This compared with payments made to 1,152 people aggregating $1,872,029 for the previous year.

PENSION PLAN

The year just closed was the fifth year in which the Company's Pension Plan has been in operation. The number of employees included in the Plan has been gradually increasing since its inception, as more employees have become eligible. There were 490 employees included in the Plan at the end of the current year compared with 430 a year ago. The Plan is non-contributory (Company pays all costs). The Company's contribution to the Plan for the year just closed amounted to $211,783 which has been paid over to the Trustee, City Bank Farmers Trust Company. The Company's contribution for the preceding year was $206,493.

The amount held by the Trustee in the Fund at the end of the current year (including the contribution for the current year) was $877,577.00.

REDUCTION OF DEBT

During the current year the Company paid off $545,000 of its indebtedness for borrowed money. This is reflected in the balance sheet in two items—Current Maturities of Notes Payable and Long Term Debt. The amount of Current Maturities of Notes Payable amounted to $320,000 at the end of the current year, compared with $545,000 a year ago—a reduction of $225,000; the Long Term Debt at the end of the current year amounted to $5,355,000 compared with $5,675,000 a year ago—a reduction of $320,000.

THE COMING YEAR

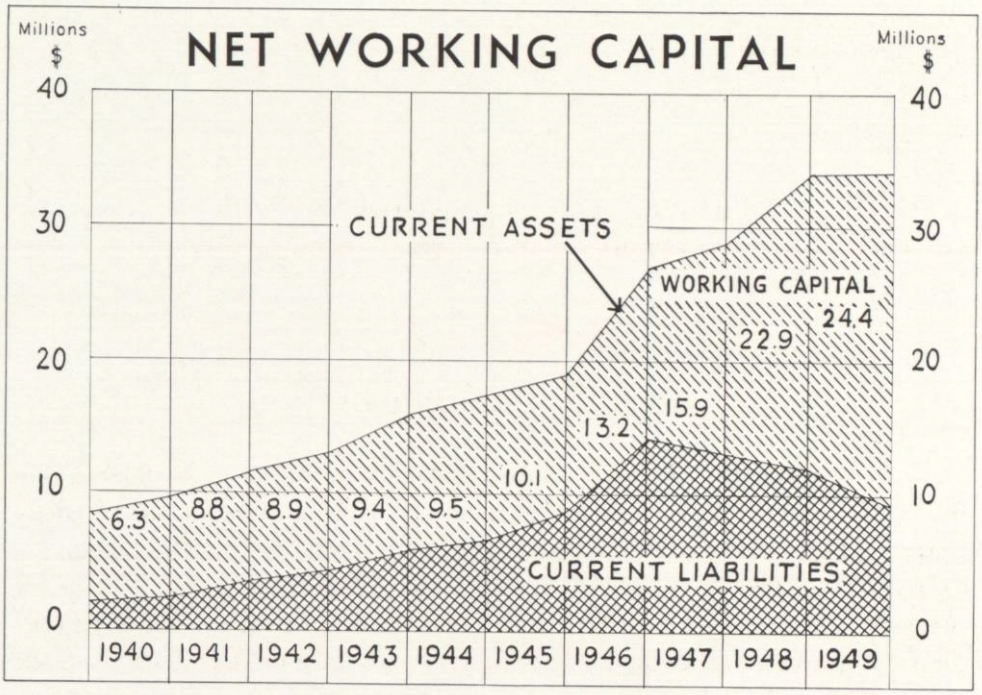
Sales in the new year thus far are a little below a year ago. The volume for February was down 2.3%; and for March the sales were about even with 1949.

March sales were helped by the fact that Easter this year falls one week earlier than last year. We expect April business will be adversely affected in a comparable degree.

Indications now are that profit results for the year will closely parallel the sales results.

WORKING CAPITAL

The ratio of current assets to current liabilities was 3.5 to 1 at January 31, 1950, compared with 3.1 to 1 for the preceding year. The working capital was increased during the current year by nearly $1,500,000. The amount of working capital at the end of the current year was $24,375,674 compared with $22,897,345 a year ago. The working capital at the end of each year for the past ten years is shown in the chart below.



VARIOUS

The earned surplus of the Company was increased during the current year from $15,931,526 to $18,035,395 and the total surplus of the Company at January 31, 1950 amounted to $24,293,029.

The amount of customers' receivables, shown on the balance sheet at January 31, 1950, was $9,729,920 compared with the figure of a year ago of $8,953,302. The Company continued to sell the larger part of its customers' installment contracts to a bank under an arrangement which has been operating satisfactorily for a number of years. The reserve for doubtful accounts was increased from $1,068,588 a year ago to the figure of $1,133,325 at January 31, 1950. This reserve is a very generous one, in the opinion of the management, and the receivables are considered to be in a satisfactory condition.

We have included in the report this year a few pictures of our stores. On the opposite page there are two photographs of our new store in Kansas City which was opened in March 1949. On the following two pages there are photographs of our store in Montgomery, Alabama, and of our store in Nashville, Tenn.

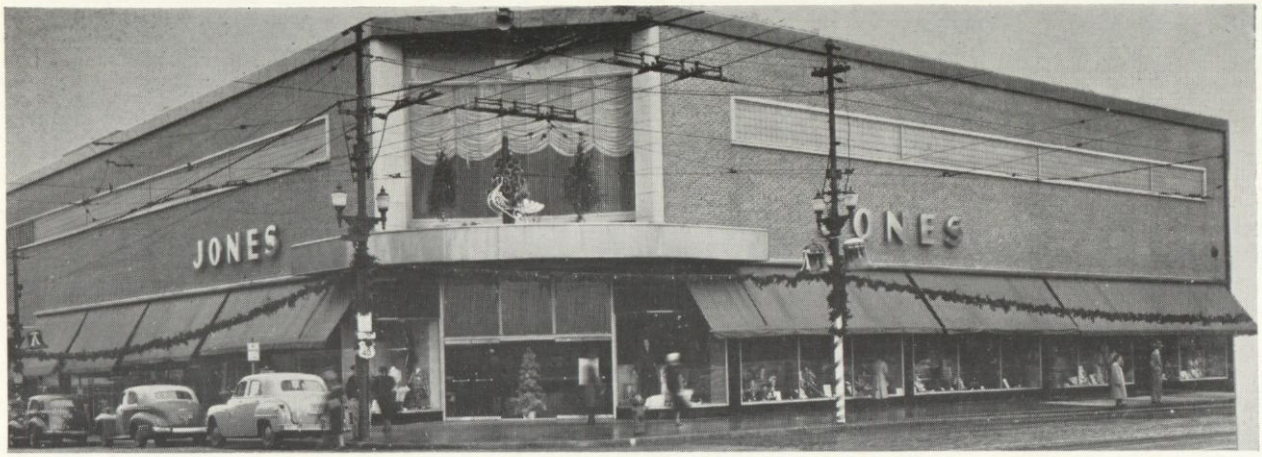
The financial statements and the report of our auditors are given on the succeeding pages, and following that is a twelve year comparison of sales, earnings, and surplus together with a ten year comparison of balance sheets.

The management is glad of the opportunity to express its appreciation for the continued loyalty and cooperation of the Company's employees.

Respectfully submitted,

F. G. KINGSLEY,
Chairman of the Board

H. W. JOCKERS,
President



EXTERIOR

Our New Suburban Jones Store in Kansas City, Missouri

MAIN FLOOR

The Montgomery Fair Store in Montgomery, Alabama

MAIN
FLOOR

COSMETICS
DEPARTMENT

MEN'S
FURNISHINGS
DEPARTMENT

The Castner-Knott Store
in Nashville, Tennessee

MERCANTILE STO

(a Delaware

AND SUBSIDIARY

CONSOLIDATED BALANCE

ASSETS

Current Assets:		
Cash		$ 4,739,075
Accounts receivable—		
Customers—		
Regular retail terms	$ 5,851,624	
Installment terms, including installments maturing after one year	2,030,881	
Equity in installment accounts sold (the uncollected balances of accounts sold amounted to $8,254,098)	1,847,415	
Due from suppliers, etc.	381,020	
	$10,110,940	
Less—Reserve for doubtful accounts	1,133,325	8,977,615
Merchandise inventories, priced at the lower of cost or market, as determined by the retail inventory method, except for merchandise in transit which is priced at cost		19,284,683
Unexpired insurance premiums, prepaid rent, etc.		999,560
TOTAL CURRENT ASSETS		$34,000,933
Other Assets:		
U. S. Government securities deposited in escrow as guarantees of performance under leases, at cost	$ 176,998	
Post-war refund of Canadian excess profits taxes	73,675	
Other	62,436	313,109
Fixed Assets:		
Land and buildings owned, buildings on leased ground and leaseholds, and building improvements, at cost, less reserve for depreciation of $4,481,674	$ 7,831,274	
Store fixtures, etc., at cost, less reserve for depreciation of $2,734,741	4,853,893	12,685,167
		$46,999,209

NOTE: Under a loan agreement, dividends on come (less preferred dividends) earned lative basis. At January 31, 1950, earnings

RES COMPANY, INC.

corporation)

COMPANIES

SHEET – JANUARY 31, 1950

LIABILITIES

Current Liabilities:			
Accounts payable			$ 4,211,136
Accrued taxes (other than Federal income), salaries, rent, etc.			2,843,012
Reserve for Federal income taxes (less U. S. Treasury Savings Notes, $100,000)			2,251,111
Current maturities of notes payable			320,000
TOTAL CURRENT LIABILITIES			$ 9,625,259
Long-Term Debt:			
Notes payable, 3⅜%, due $250,000 annually		$ 4,500,000	
Other notes payable (including mortgage notes payable, $655,000)		855,000	5,355,000
Deferred Carrying Charges on Installment Accounts			504,781
Reserve for Possible Future Decline in Market Value of Inventories and Other Contingencies			1,500,000
Capital Stock and Surplus:			
Capital stock—			
Preferred stock, 7% cumulative, $100 par value, callable at $105 per share—			
Authorized and issued, 10,410 shares	$1,041,000		
Less—Held in treasury, 7,510 shares	751,000		
Outstanding, 2,900 shares		$ 290,000	
Common stock, par value $3.66⅔ per share—			
Authorized and issued, 1,582,380 shares	$5,802,060		
Less—Held in treasury, 101,160 shares	370,920		
Outstanding, 1,481,220 shares		5,431,140	
Surplus prior to February 1, 1935 (no change during year)		6,257,634	
Earned surplus since February 1, 1935		18,035,395	30,014,169
			$46,999,209

the common stock are limited to 70% of net in-
subsequent to January 31, 1948, on a cumu-
free of this restriction were $3,104,517.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND EARNED SURPLUS

For the Year Ended January 31, 1950

PROFIT AND LOSS

Net sales, including sales of leased departments		$112,607,776
Cost of goods sold, selling, operating and administrative expenses, including depreciation of $1,298,027		107,478,796
Operating profit		$ 5,128,980
Other income (net):		
Carrying charges on installment accounts, miscellaneous income, etc. (net)	$1,160,055	
Less—Interest expense	356,906	803,149
Profit before provision for income taxes		$ 5,932,129
Provision for income taxes:		
Federal income tax	$2,162,000	
State and Canadian taxes	163,000	2,325,000
Net profit for the year		$ 3,607,129

EARNED SURPLUS SINCE FEBRUARY 1, 1935

Balance, January 31, 1949		$ 15,931,526
Net profit for the year ended January 31, 1950		3,607,129
		$ 19,538,655
Dividends declared:		
Preferred stock—$7.00 per share	$ 22,040	
Common stock—$1.00 per share	1,481,220	1,503,260
Balance, January 31, 1950		$ 18,035,395

AUDITORS' REPORT

To the Board of Directors and Stockholders,
Mercantile Stores Company, Inc.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as of January 31, 1950, and the related statements of consolidated profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and earned surplus present fairly the financial position of Mercantile Stores Company, Inc. and subsidiary companies as of January 31, 1950, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.,
April 4, 1950.

MERCANTILE STO
AND SUBSIDIARY

TWELVE YEAR COMPARISON OF SALES,

Fiscal Year Ended January 31	Net Sales	Profit Before Income Taxes	Income Taxes	Net Profit
1950	$112,607,776	$ 5,932,129	$2,325,000	$3,607,129
1949	119,091,512	8,369,725	3,243,000	5,126,725
1948	113,012,702	8,444,538	3,286,000	5,158,538
1947	103,007,184	10,800,760	4,618,000	4,682,760**
1946	74,407,149	5,894,901	4,084,000	1,810,901
1945	59,668,304	6,633,941	4,854,000	1,779,941
1944	50,277,807	4,700,875	3,276,760	1,424,115
1943	41,173,113	3,340,264	2,118,645	1,221,619
1942	34,867,853	1,912,941	812,165	1,100,776
1941	29,509,394	939,991	278,548	661,443
1940	27,619,565	274,646	72,059	202,587
1939	25,467,539	*486,264**	3,850	*490,114**

* Italics indicate loss or deficit.

** After deducting special provision of $1,500,000 for possible future decline in market

*** Principally dividends on common stock, annual dividends on preferred stock ranged from

RES COMPANY, INC.
COMPANIES

EARNINGS AND EARNED SURPLUS

Net Profit Per Common Share (After 10 for 1 Splitup in 1945)	Dividends Paid***	Earned Surplus (End of Year)	Book Value Per Common Share (After 10 for 1 Splitup in 1945)
$2.42	$1,503,260	$18,035,395	$20.06
3.44	1,505,921	15,931,526	18.64
3.47	1,506,896	12,310,722	16.19
3.14	1,506,896	8,659,080	13.72
1.21	395,981	5,483,216	11.58
1.18	398,756	4,068,296	10.63
.94	405,106	2,687,111	9.69
.82	398,388	1,668,102	9.20
.73	330,631	844,871	8.58
.43	331,344	74,726	8.07
.11	42,504	*255,373**	7.85
*.36**	46,907	*415,456**	7.59

value of inventories and other contingencies.

$46,907 in earliest year to $22,040 in latest year.

MERCANTILE STO

AND SUBSIDIARY

TEN YEAR COMPARISON

ASSETS	*January 31,* 1950	1949	1948	1947
Cash	$ 4,739,075	$ 6,434,661	$ 3,349,732	$ 2,668,226
Receivables, less Reserves	8,977,615	8,534,538	6,264,915	4,629,841
Merchandise Inventories	19,284,683	18,028,742	18,617,899	18,632,200
Prepaid Expenses	999,560	954,283	468,939	679,625
TOTAL CURRENT ASSETS	$34,000,933	$33,952,224	$28,701,485	$26,609,892
Other Assets	313,109	278,756	329,508	268,621
Fixed Assets (Net)	12,685,167	12,345,179	9,948,169	8,944,064
	$46,999,209	$46,576,159	$38,979,162	$35,822,577
LIABILITIES				
Current Liabilities	$ 9,625,259	$11,054,879	$12,790,334	$13,404,957
Long-Term Debt	5,355,000	5,675,000	95,000	105,000
Reserves and Deferred Income	2,004,781	1,895,980	1,727,532	1,597,966
Capital Stock	5,721,140	5,761,140	5,797,940	5,797,940
Surplus*	24,293,029	22,189,160	18,568,356	14,916,714
	$46,999,209	$46,576,159	$38,979,162	$35,822,577
Net Working Capital	$24,375,674	$22,897,345	$15,911,151	$13,204,935

* Includes surplus prior to February 1, 1935 of $6,257,634, unchanged during ten year period.

RES COMPANY, INC.

COMPANIES

OF BALANCE SHEETS

		January 31,			
1946	*1945*	*1944*	*1943*	*1942*	*1941*
$ 3,058,809	$ 3,542,395	$ 3,652,070	$ 2,551,575	$ 2,764,570	$ 1,582,371
2,973,050	2,559,611	2,369,795	2,781,126	4,319,635	3,605,464
11,116,080	7,817,194	6,956,591	6,623,978	4,340,148	2,922,536
692,000	409,297	399,839	408,734	531,841	181,153
$17,839,939	$14,328,497	$13,378,295	$12,365,413	$11,956,194	$ 8,291,524
280,826	624,429	529,752	276,726	119,190	157,931
7,361,003	6,298,478	5,944,141	6,125,551	6,098,917	6,037,061
$25,481,768	$21,251,404	$19,852,188	$18,767,690	$18,174,301	$14,486,516
$ 7,724,450	$ 4,866,107	$ 3,963,093	$ 3,514,212	$ 3,169,427	$ 1,951,782
115,000	125,000	800,000	1,200,000	1,600,000	—
103,528	135,439	187,922	247,391	342,799	241,416
5,797,940	5,798,928	5,956,428	5,880,351	5,959,570	5,960,958
11,740,850	10,325,930	8,944,745	7,925,736	7,102,505	6,332,360
$25,481,768	$21,251,404	$19,852,188	$18,767,690	$18,174,301	$14,486,516
$10,115,489	$ 9,462,390	$ 9,415,202	$ 8,851,201	$ 8,786,767	$ 6,339,742